

**ILLINOIS CHILDREN'S
HEALTHCARE FOUNDATION**

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Illinois Children's Healthcare Foundation
Oak Brook, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Illinois Children's Healthcare Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois Children's Healthcare Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Chicago, Illinois
May 24, 2018

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 603,855	\$ 642,616
Prepaid expense and deposits	23,409	27,191
Investments, at fair value	149,054,831	131,315,609
Property and equipment, net	<u>15,316</u>	<u>14,693</u>
 Total assets	 <u>\$ 149,697,411</u>	 <u>\$ 132,000,109</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 144,740	\$ 196,238
Grants payable	<u>2,660,670</u>	<u>6,278,985</u>
 Total liabilities	 2,805,410	 6,475,223
 Unrestricted net assets	 <u>146,892,001</u>	 <u>125,524,886</u>
 Total liabilities and net assets	 <u>\$ 149,697,411</u>	 <u>\$ 132,000,109</u>

See accompanying notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
 STATEMENTS OF ACTIVITIES
 Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue		
Investment return		
Dividends and interest	\$ 3,363,099	\$ 3,225,636
Realized gains on investments, net	414,741	11,086,695
Unrealized gains/(losses) on investments, net	20,422,190	(4,602,302)
Investment fees	<u>(160,096)</u>	<u>(155,783)</u>
Total revenue	<u>24,039,934</u>	<u>9,554,246</u>
Expenses		
Grants approved	1,351,991	8,108,694
Grants returned	(203,091)	-
Professional fees for evaluation and program consulting	190,087	280,435
Convening expense	23,535	-
Salaries and payroll taxes	740,340	491,796
Excise taxes	71,497	141,080
Professional fees	190,447	138,302
Rent	45,213	37,738
Employee benefits	115,190	67,138
Printing and copying costs	11,313	22,926
Travel and meetings	23,234	39,175
Contributions	21,090	25,910
Postage, shipping and delivery	12,741	9,492
Software maintenance	22,840	23,616
Board and committee meetings	23,125	13,202
Depreciation	5,605	5,297
Telephone	5,319	6,156
Insurance	7,721	7,333
Supplies	8,073	9,899
Membership dues	3,225	2,335
Miscellaneous	<u>3,324</u>	<u>5,823</u>
Total expenses	<u>2,672,819</u>	<u>9,436,347</u>
Change in net assets	21,367,115	117,899
Unrestricted net assets, beginning of year	<u>125,524,886</u>	<u>125,406,987</u>
Unrestricted net assets, end of year	<u>\$ 146,892,001</u>	<u>\$ 125,524,886</u>

See accompanying notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 21,367,115	\$ 117,899
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,605	5,297
Realized gains on investments	(414,741)	(11,086,695)
Unrealized (gains)/losses on investments	(20,422,190)	4,602,302
(Increase) decrease in:		
Interest and dividends receivable	-	145,767
Prepaid expenses and deposits	3,782	(5,201)
Increase (decrease) in:		
Accounts payable and accrued expenses	(51,498)	(40,256)
Grants payable	(3,618,315)	2,887,436
Net cash used in operating activities	<u>(3,130,242)</u>	<u>(3,373,451)</u>
 Cash flows from investing activities		
Capital expenditures	(6,228)	(9,496)
Proceeds from sale of investment securities	4,056,579	147,522,478
Purchases of investment securities	<u>(958,870)</u>	<u>(145,091,669)</u>
Net cash provided by investing activities	<u>3,091,481</u>	<u>2,421,313</u>
 Net decrease in cash	(38,761)	(952,138)
 Cash, beginning of year	<u>642,616</u>	<u>1,594,754</u>
 Cash, end of year	<u>\$ 603,855</u>	<u>\$ 642,616</u>
 Supplemental disclosure of cash flow information		
Cash paid for taxes	<u>\$ 136,194</u>	<u>\$ 128,426</u>

See accompanying notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS

Illinois Children's Healthcare Foundation (the Foundation) is a corporation that was organized as an exempt organization under Section 501(c)(3) of the Internal Revenue Code in December 2002. The Foundation was created through an action of then Attorney General Jim Ryan and an Illinois insurance carrier. This action and a settlement of approximately \$125 million established the only private foundation focused solely on the health needs of children of Illinois.

The Foundation's efforts, while broadly defined by its Articles of Incorporation, have been focused generally on ensuring every child in Illinois has the opportunity to grow up healthy. To carry out this vision, the Foundation is currently focusing its efforts on children's oral health, mental health and innovative programming throughout the state of Illinois. The Foundation has primarily funded initiatives that enhance and expand the availability and delivery of services, increase the eligible workforce and communicate the importance of proper healthcare.

Each year, specific funding areas are identified and communicated to potential applicants. Most funding is generated and authorized through a "Request for Proposal" process. In addition, the Foundation will consider other grant requests throughout the year that fit within the criteria allowed for funding.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation: These financial statements report net assets separately by class of net assets. The sole class of net assets is defined as unrestricted, which are amounts that are not donor restricted and currently available for use in the Foundation's operations.

Cash: The Foundation maintains its cash with one financial institution, which at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Investments: The Foundation's investments are reported at fair value. Investment return, including net realized and unrealized (losses) gains, is reflected in the statement of activities as a (decrease) increase in net assets. Interest and dividend income is recorded on the accrual basis.

The Foundation's investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the statements of financial position.

Federal Income Taxes: The Foundation has received a letter from the Internal Revenue Service indicating that it is a not-for-profit corporation exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Foundation is treated as a private foundation for the purpose of certain excise taxes. Accordingly, the Foundation is subject to either a 1% or 2% excise tax on its net investment income based on the amount of distributions made during the year.

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING
(Continued)

Property and Equipment: Property and equipment are valued at cost. The Foundation's policy is to capitalize items with a useful life of one year or more and a value of \$500 or more. These assets are depreciated over their useful lives, using the straight-line method.

	<u>Years</u>
Computer software	3
Office and computer equipment	5
Office furniture	7

Management Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Guidance: In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019. The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this ASU affect not-for-profit entities (NFPs) and the users of their general purpose financial statements. The amendments in this ASU make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the financial statements.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2017, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2017. Management has performed their analysis through May 24, 2018, which is the date the financial statements were available to be issued.

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

Generally accepted accounting standards establish a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Estimated fair values for the Foundation's fixed income and equity mutual funds were based on quoted market prices.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.

The Foundation currently uses no Level 2 inputs.

Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The Foundation currently uses no Level 3 inputs.

The following tables sets forth by level within the fair value hierarchy the Foundation's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2017 and 2016:

	December 31, 2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds				
Vanguard Federal Money Market Fund	\$ 958,870	\$ 958,870	\$ -	\$ -
Vanguard Equity Mutual Funds	118,019,370	118,019,370	-	-
Vanguard Inter-Term Investment Grade Fund	7,272,418	7,272,418	-	-
Vanguard Short-Term Investment Grade Fund	7,229,657	7,229,657	-	-
Vanguard International Bond Index Fund	7,288,840	7,288,840	-	-
Vanguard Total Bond Market Index Fund	8,285,676	8,285,676	-	-
	<u>\$ 149,054,831</u>	<u>\$ 149,054,831</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2016			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds				
Vanguard Federal Money Market Fund	\$ 908,098	\$ 908,098	\$ -	\$ -
Vanguard Equity Mutual Funds	100,443,842	100,443,842	-	-
Vanguard Inter-Term Investment Grade Fund	7,190,370	7,190,370	-	-
Vanguard Short-Term Investment Grade Fund	7,284,813	7,284,813	-	-
Vanguard International Bond Index Fund	7,279,886	7,279,886	-	-
Vanguard Total Bond Market Index Fund	8,208,600	8,208,600	-	-
	<u>\$ 131,315,609</u>	<u>\$ 131,315,609</u>	<u>\$ -</u>	<u>\$ -</u>

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
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NOTE 4 - PROPERTY AND EQUIPMENT

	<u>2017</u>	<u>2016</u>
Computer software	\$ 32,402	\$ 32,402
Office and computer equipment	48,442	45,235
Office furniture	<u>46,030</u>	<u>43,009</u>
	126,874	120,646
Accumulated depreciation	<u>(111,558)</u>	<u>(105,953)</u>
Total property and equipment, net	<u>\$ 15,316</u>	<u>\$ 14,693</u>

NOTE 5 - GRANTS PAYABLE

The Foundation reserves the right to cancel a grant at any time if it determines that the organization receiving the grant is not administering the project and grant funds in accordance with the proposal approved by the Foundation's board. However, the Foundation has determined that it is highly unlikely that these grants will not be awarded. As of December 31, 2017 and 2016, \$2,660,670 and \$6,278,985, respectively, of grants approved in prior years are payable in future years.

Amounts payable at December 31,

2018	\$ 2,620,670
2019	<u>40,000</u>
	<u>\$ 2,660,670</u>

NOTE 6 - FEDERAL EXCISE TAXES AND MINIMUM REQUIRED DISTRIBUTIONS

In accordance with the applicable provisions of the Tax Reform Act of 1969 (the Act), the Foundation is subject to an excise tax on interest, dividends and realized gains, as defined in the Act. Accordingly, federal excise tax expense for the years ended December 31, 2017 and 2016, was estimated to be approximately \$71,500 and \$141,000, respectively.

In addition, the Act requires that certain minimum distributions be made in accordance with a specific formula. The Foundation has made the required distributions during both 2017 and 2016.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

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ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION
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NOTE 6 - FEDERAL EXCISE TAXES AND MINIMUM REQUIRED DISTRIBUTIONS (Continued)

The Foundation recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of December 31, 2017 and 2016.

Due to its tax-exempt status, the Foundation is not subject to U.S. federal income tax or state income tax. The Foundation is no longer subject to examination by U.S. federal or state taxing authorities for years before December 31, 2014. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

NOTE 7 - LEASE

The Foundation has entered into a lease for its office facilities effective July 1, 2009. The term of the lease is from July 1, 2009 to February 28, 2022, with escalating rent payments each November 1. Rent expense for 2017 and 2016 was \$45,213 and \$37,738, respectively.

Total minimum payments required:

2018	\$	55,269
2019		56,645
2020		58,021
2021		59,397
2022		<u>10,091</u>
Total	\$	<u><u>239,423</u></u>

NOTE 8 - FUNCTIONAL EXPENSES

Functional expenses for the Foundation for the years ended December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Program	\$ 2,196,637	\$ 8,945,155
General and administrative	<u>476,182</u>	<u>491,192</u>
Total expenses	<u><u>\$ 2,672,819</u></u>	<u><u>\$ 9,436,347</u></u>